GOVERNMENT OF INDIA
PETROLEUM AND NATURAL GAS
LOK SABHA

UNSTARRED QUESTION NO:1935
ANSWERED ON:11.08.2011
REFINING COST OF PETROLEUM PRODUCTS
Gangaram Shri Awale Jaywant

Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

(a) the estimated refining cost of petroleum products per barrel;

(b) the basis on which per litre refining cost of petrol and diesel is estimated;

(c) whether the refining cost of various petroleum products in the public sector oil refineries is higher than that of the private sector oil refineries;

(d) if so, the main reasons therefor; and

(e) the steps taken / proposed to be taken by the Government to reduce the refining cost of petroleum products?

Answer

MINISTER OF STATE IN THE MINISTRY OF PETROLEUM AND NATURAL GAS (SHRI R.P.N. SINGH)

(a) and (b): Refining of crude oil is a process industry where crude oil constitutes around 90% of the total cost. Crude oil is processed through several processing units such as Crude Distillation Unit (CDU), Vacuum Distillation Unit (VDU), Fluid Catalytic Cracking Unit (FCC), Hydro-cracker, Coker unit, Lube Unit etc. Each of these units produces intermediate product streams, which require extensive reprocessing and blending. Finished petroleum products are produced from a blend of various intermediate streams and hence, production cost is not assigned to individual refined products.

However, for purchase of petrol and diesel, the oil marketing companies pay trade parity price to the refineries. Trade parity price is the weighted average price of Import Parity Prices and Export Parity Prices in the ratio of 80:20.

(c) and (d) The average refining cost of various petroleum products in some of the public sector oil refineries is higher on account of the following factors:-

i) Some of the refineries in Public Sector are old and suffer from locational disadvantage.

ii) Some of the public sector refineries are small in size. The sub optimal size of a refinery results in higher unit cost of production.

iii) Some of the public sector refineries have to bear irrecoverable taxes like octroi, entry tax on crude oil which increases the cost of production substantially.

iv) Some of the public sector refineries import crude oil at ports having limited infrastructure, which do not permit berthing of large size ships to economize on the transportation cost of crude oil.

(e) To improve the GRMs of refineries and thereby enhance the overall profitability, public sector oil refineries continuously explore opportunities available for capacity augmentation, value addition, improvement in energy efficiency, improvement in product quality, etc. Based on benchmarking of Public Sector Undertaking refineries, performance improvement programmes have also been undertaken in some of the refineries for increasing refining margins.